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BEFORE THE SUBCOMMITTEE ON PERSONNEL
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
111TH CONGRESS
HEARINGS ON
MILITARY RESALE AND MORALE, RECREATION, AND
WELFARE PROGRAMS
February 25, 2009

**NOT FOR PUBLICATION
UNTIL RELEASED BY
HOUSE ARMED SERVICES COMMITTEE**

Madam Chair and Distinguished Members of the Subcommittee:

It is an honor to be here today as Chair of the American Logistics Association representing 250 of America's leading manufacturers, 60 brokers and distributors, service companies, media outlets and more than 1400 individual members who are actively engaged in providing goods and services to our resale customers, MWR activities for our military, Coast Guard, and Veterans. For the past three years, the American Logistics Association has received no grants or contracts from the federal government.

These are extraordinary times for our Nation, our economy, our military and our veterans. The challenges are unprecedented, it is important that our military emerge strong and viable. We recognize the importance of working together to get our economy on firm ground. It is critical that our military members and their families are well cared for now and in the future. Our Veterans are special people and should be provided with needed services, particularly those injured physically and mentally traumatized by their sacrifices in the Global War on Terror. We all need to work to ensure that our system reaches out to the vast network of Guard and Reservists who depend heavily on our benefits.

ALA organizations are a strong force in our National economy and with the military. Allow me to reflect for a moment on the potential that our organization can muster to assist you as you meet these challenges.

- Collectively, our member companies contribute nearly \$1.2 trillion to the economy and generate millions of jobs. This includes

support for large manufacturing jobs and a large number of small businesses that are vital to the future growth of our economy.

- Member companies provide products through the resale system that generate \$16 billion and produce 30,000 jobs for American industry. This contribution is larger overseas where \$4 billion in US products are sold to our patrons—funds that would otherwise flow to foreign economies.
- Industry contributes nearly \$500 million in support services for these operations in the form of in-store labor support, product delivery, and in-kind services.
- The MWR and resale system itself generates over \$18 billion in sales and provides 120,000 jobs, a large percentage of these jobs are held by military family members.
- The system generates \$500 million in earnings that directly contribute to quality of life.
- The system builds nearly \$600 million in facilities each year generating thousands of construction jobs in the private sector and donating these buildings to the Federal inventory upon completion.
- Goods and services purchased by the resale system generate thousands of jobs in communities adjacent to military bases with a large percentage of these businesses being smaller and independently owned.

It's a formula that works.

- It works for the taxpayer. MWR and the resale system keeps high quality people in the service, and generates \$17 for every dollar of taxpayer contributions. More important, these taxpayer contributions are fiscally sound and budgeted carefully with care. Commissaries consistently score high marks on all accountability reviews by the Office of Management and Budget. Exchanges consistently score high on their annual audits and controls put in place, partly attributable to the work of this Committee, ensure responsive and accountable programs.
- It works for the military and our Veterans. The system provides high quality products and services at affordable prices. That's important to our Veterans, active duty military, and their families who struggle to stretch their paycheck each and every day. It has emerged as absolutely critical in today's economy to provide a safety net Military retirees and Veterans who have seen their home values decline and their retirement savings depleted.
- This formula makes a huge contribution to community MWR services that are ever more critical in providing needed services for stressed military families and for other community programs

such as assistance for people transitioning from the military into civilian life in a tough economy.

- It works for our Nation. It is a powerful engine behind the economy, generating jobs and contributing to the GDP.

ALA is committed to ensuring that this successful formula remains intact and is reinforced, at the same time it is a system that requires diligence to ensure that it remains strong and viable.

It is this very diligence that has marked this committee's support over the years. The House Armed Services Committee strong perennial support has laid the groundwork for the system to prosper and rise to meet the challenges in these tough times. The Nation and all of the people who rely on this system owe a great debt of gratitude to this committee for your vision and strong support over the years,

Congress's investment is paying off each and every day:

- It pays off when a military family member visits their exchange or commissary and saves that extra dollar they can spend on much needed household expenses.
- It pays off every day when a mother drops her child off at a child care center to go to that job so she can contribute to the family's household budget and help stretch the family paycheck.

- It pays off every day when retirees save that extra dollar on their medications or help support for their family members.
- And, your investment pays off every day as the system continues to be an engine that produces jobs in the American economy and promotes American products in the global marketplace.

In these days of increased involvement by Government in the private sector, we can point to the MWR and resale system as a private sector and government collaboration that works, is accountable to the taxpayers and shareholders—the patrons—and makes a great contribution to the Nation's economy and the well-being and readiness of our Armed forces and Veterans.

In short:

- What's good for the system is good for the economy.
- What's good for the system is good for the military and veterans
- What's good for the system is good for the taxpayer.

This system would not be able to accomplish all of this without your support. We believe that the following legislative initiatives will ensure it remains viable.

We urge you to:

- Continue your support for funding of commissaries, shipment of American products to our overseas bases, and full support for

all authorized categories of morale, welfare and recreation programs. The exchanges deserve an enormous amount of credit for the millions of dollars contributed to service MWR programs.

- Ensure the well being of these important quality of life activities, DOD has made a commitment to provide appropriated fund support to Category A and Category B programs. However, budget pressures are causing the military services to reconsider this obligation. In the end, the troops and the families suffer and the nation loses. ALA urges Congress to ensure that DOD honors its commitment to the troops to fund these programs at least to the 85 percent level for Category A and 75 percent for Category B Requirements. These programs are especially critical to the readiness of our forces and the support of their families during this period of conflict and extended unpredictable separations. Appropriations to the system are a bargain to the taxpayer, yielding so many benefits including retention of a quality force and lower recruitment costs.
- Continue your support for authorization for appropriations for commissary, exchange and other nonappropriated fund construction at bases that are expanding as a result of global re-stationing and BRAC.

- Ensure that industry representatives and authorized patrons have unimpeded and secure access to military installations.¹

The ALA has an aggressive effort underway to ensure that industry partners are provided with secure credentials to access military bases in support to the programs. We urge you to encourage this effort with the Administration and work to ensure that patrons are provided with secure credentials as well. Given the increasing vital contributions that industry partners make to the resale system in the form of in-store support, it is vital that a secure process be expanded so that this support continues in a high threat environment. It is vital that secure credentials be developed and provided to all eligible patrons in the event of a high threat environment where the traditional ID card may not suffice.

- Support having shovel- ready commissary and nonappropriated fund projects eligible for participation in the construction funding that is being made available from the American Recovery and Revitalization Act. These projects are perfectly suited to the spirit and intent of the Stimulus to immediately create jobs improving America's infrastructure.

¹ In a PDUSD P&R memo dated 29 December 2008, Subject: Physical Access for Resale Vendors, the Principal Deputy, Mr. Dominquez points out that ALA has actively engaged the Federation for Identity and Cross-Credentialing Systems (FiXs) effort as a solution for vendor access. In effect, in the absence of standards, industry has taken action on its own to provide a safe and secure environment for vendor access to military installations. Industry needs guidance from the Department on the accepted method of vetting vendors who require access to military installations to support the military resale and MWR programs.

- Support efforts by the exchanges and commissaries to reach out to National Guard and reservists who live in communities where they cannot readily access on-base services.
- We need to capitalize on the billions of dollars in investment that taxpayers and military people have made over the years to provide a helping hand to those who now need it most.
- We urge you to move to provide benefits to a larger group of Veterans and military people returning from multiple overseas deployments and suggest that this benefit be provided to all former military and their families for at least three years.
- We urge you to give these benefits to 30 percent disabled veterans. The Congress has directed a study of expanding this population shopping privileges in exchanges and commissaries. ALA supports this expansion.
- We urge you to authorize funding to correct a long-standing injustice. This is the requirement that nonappropriated funds be used to pay for cost of living allowances for US citizens choosing to live abroad on the local economy. This is the right thing to do and will save the exchanges and MWR programs nearly \$100 million---money that is vitally needed for these programs. Congress needs to allow the Services to use prior year funds to pay this cost. We understand that funding is

available in DoD but needs Congressional authorization to release it.

- We urge you to repeal of the provisions of the Tax Increase Prevention and Reconciliation Act of 2005 requiring federal government entities to withhold 3 percent of payments due to vendors providing goods and services to the federal government.² This is an unfair requirement on companies that have been honest taxpayers and penalizes all companies doing business with the government for the transgressions of a few. It also will require major adjustments in the pay processes for the resale entities. At the very least, companies that are honest taxpayers should and sell to the military resale system should be exempt from this requirement.
- Closely monitor and prevent any attempts to consolidate military service exchange and commissary programs to ensure benefits are not downgraded and consolidation is not implemented without full collaboration and support of Congress, the military services and the entire active and reserve service beneficiary population, including retirees.

² We believe that the legislation, if allowed to be implemented will severely impact the cash flow of businesses, particularly small businesses which are least likely to be able to absorb it. The result could be an increase in prices to service men and women as businesses are forced to pass along the compliance cost to the military resale programs. The legislation could also result in discouraging companies from participation in the military resale business, reducing competition and impacting pricing. Additionally, companies working in military resale may have to adapt their procurement procedures, accounting and information systems to accommodate additional withholding resulting in increased pricing to military patrons.

- Remove restrictions on products and services that may be offered to authorized patrons.³
- Support supply chain initiatives that drive the lowest cost of goods for the military resale system while recognizing the importance of the vendor/broker/distributor support network that is unique to the military resale system.
- Extend the authority for uniform funding and management of Department of Defense nonappropriated fund instrumentalities.
- Place a moratorium on A-76 studies of commissary operations. These reviews end up costing more than they save.
- Establish standard time limits for occupying temporary lodging associated with PCS: up to 10 days, with the possibility of an extension of up to 30 days with designated authority approval. Further extension of up to 60 days could be pursued, subject to agency approval.
- Provide primacy of exchange and commissary stores on all military installations and in military housing areas to include privatized housing areas.

There are significant changes taking place in today's military force and military families. The solid lines drawn between active duty and veteran's

³ The Subcommittee has demonstrated strong support for reduced restrictions but more work remains. The exchanged require a revised unit wholesale cost of furniture set at a price of \$2000 in order to overcome inflation among other pricing variables. While the pricing relief would lead to a larger selection, the overwhelming need is for some relief in construction and renovation restrictions.

benefits are beginning to blur to the advantage of our military community. These MWR programs consistently thought to be recreation oriented like fitness centers are increasingly being thought in a holistic manner as part of the health care regimen.

The fact is military families are a readiness issue. We also understand that there must be a balance struck between people programs and mission requirements. Truly, they go hand in hand. Our focus is to ensure the industry we represent remains relevant during the transition to a modern military force/modern military family.

We have engaged the MWR community in an effort to look to the horizon and craft programs that mesh with developing lifestyles and emerging social networks with the desired end state of the military family as the model, modern family. To do this we must replace reaction with prevention as the output of health and recreation programs. We have also undertaken an even greater challenge in a collaborative effort with the military resale and MWR leadership that includes understanding and communicating the impact command decisions have on business costs.

The move to a streamlined accountable infrastructure has brought significant positive feedback for the resale programs and has included the adoption of industry best business practices. The needs of the military family to maneuver through restationing and reassignment given the difficult economic times points to heightened responsibility of the taxpayer to fund resale and MWR construction projects necessitated by BRAC and Service directed restationing.

The resources provided for these important programs demonstrate a significant return on investment when you calculate the benefits that these programs provide with a relatively small investment compared to other costs in the military compensation package. In every case, these programs have demonstrated sound stewardship, exemplary leadership and a desire to transform to meet the needs of a modern force and a modern military family. The Military Resale and MWR programs have adopted the best aspects of the public and private sector and have developed deliverables that are keys to the needs of their constituency. The practice of leveraging the best aspects of the private sector with solid government performance has established these programs as benchmarks for others to emulate. In light of this progress, we strongly oppose any initiatives towards privatization.

We urge the Congress to ensure the resale programs are unencumbered by excessive rules and regulations that inhibit efficient and effective delivery of these benefits and that they continue to receive continued immunities from Federal, state, and local taxes.

The critical pillar for these programs is the support for funding stability. ALA urges Congress to oppose any initiative that would reduce benefits or savings for members, and strongly supports full funding of the benefit in FY 2010 and beyond to sustain the current level of service for all beneficiaries. ALA requests this subcommittee's support in closely monitoring commissary funding and policies and scrutinizing store closures, privatization, staff reductions, or

other initiatives that may diminish the scope and quality of the benefit for all beneficiaries.

Overseas rebasing and Base Realignment and Closure (BRAC) issues also are of significant concern to our members. ALA continues to be concerned about the potential impact on every quality of life program during the Defense Department's transformation, global repositioning, Army modularity, and BRAC initiatives. ALA wants to ensure that necessary family support/quality of life program dollars and services are in line with DOD/Military Services rebasing plans, including critical family support/quality of life programs, such as MWR, child care, exchanges and commissaries, housing, TRICARE programs, health care, education, family centers, and other traditional support services.

Given the current fiscal environment and long-term financial challenges of war, ALA continues to express strong concerns about the importance of sustaining vital support services and quality of life programs. Madam Chair, no longer do we have to anticipate that these programs may be at risk, we know from military officials and current news reports that cutbacks in base operation accounts and reduction in base services because of funding shortfalls are real and are expected to get worse.

Either DOD will need to continue to ask for supplemental funding, or the military services will have to fund transformation out-of-hide through program cuts that likely would hurt readiness. The most troublesome alternative is to fund changes by shifting the burden to service members and their families. That is, allowing them to come home to the United States or relocate to military and

civilian communities that are unprepared, therefore threatening to degrade the quality of life for troops and families at a time of unprecedented stress on the all-volunteer force.

ALA applauds Congress for passing a provision in the National Defense Authorization Act that mandates appropriated funds be used to ship goods for sale in overseas commissaries and exchanges. ALA strongly supports continued Second Destination Transportation (SDT) funding for goods shipped for resale by the Army and Air Force Exchange Service (AAFES) to overseas locations. Given ALA's concerns for the welfare of military families, we strongly urge Congress to sustain its aggressive oversight role. The Army is the Executive Agent here and reductions to the SDT account that would result in the increased costs of exchange goods is being borne by service members. Of the many accounts within the budget of the Army, there are very few that have such a direct affect on the quality of life of service members and the communities in which they live. It is a clear and present danger when responsibility for quality of life programs are placed in the hands of individuals who view this role more as a burden, then a privilege.

The resale programs are to be commended for their partnership efforts and outreach initiatives. These undertakings come with a cost and need to be funded to be sustainable and successful. We support the proposition that stores are operated in all locations where there is sufficient authorized patrons to support these operations.

Madam Chair, I am pleased to once again convey to the subcommittee a huge "well done" on the issue of finding relief for limited commissary surcharge dollars. For the past several years the members of this subcommittee have voiced concern in unison about the challenges facing DeCA with the increased burdens being placed on the surcharge account by BRAC and restationing construction requirements. Last year, the subcommittee requested DOD provide a 10 year construction report to identify the impacts these new requirements would force on the already overburdened surcharge account. Your leadership and persistence along with the determination of this association elevated the issue to the Secretary of Defense and in a recent ruling by the DOD General Counsel, the determination was made that commissary construction projects that are necessitated by BRAC or restationing can not be paid out of surcharge but must come from BRAC or MILCON funding. We must ensure these projects are executed in a timely manner to meet the needs of restationing troops and their families.

Base access is an area that continues to challenge the entire military resale system. The ALA fully understands the role of the base commander and the individual responsibility commanders have for the security of their base. ALA continues to working closely with the Defense Data Manpower Center (DDMC) and private industry to craft a solution that meets the needs of industry and DoD. ALA is a member of The Federation for Identity and Cross-Credentialing Systems (FIXS) whose sole purpose is to develop the type of credential and process that DOD requires. ALA commends the actions taken by Mr. Dominguez, PDUSD

P&R, (see footnote 1) in pointing out and supporting the existence and interoperability of existing commercially compatible “federated solutions”, sponsored and audited by the government, that can meet the requirements and can be leveraged expeditiously and inexpensively for both the individual who needs access, as well as for the installation that has to implement the policy. The FiXs network uses available identity credential technology in conjunction with biometric identification.⁴

ALA is participating in a test of third party cross-credentialing to take place at Fort Belvoir.⁵ It is hoped that this test will fine tune a solution that can be implemented system wide. Once again we appreciate the assistance of the subcommittee in this matter.

The exchanges are deployed with our service members fighting the Global War on Terror and support the war-time military communities at home. AAFES operates exchanges down-range, with manpower assistance from the Marines, in OIF/OEF. NEXCOM operates ships stores afloat in all theaters. In the Operations Iraqi and Enduring Freedom theaters, there are Tactical Field Exchanges, exchange supported/unit run field exchanges, and an average of 156 Navy ships’ stores providing quality goods and services necessary for day-to-day

⁴ FiXs is used within and between public and private sector organizations and promotes a trusted mechanism for federated identity infrastructures. The FiXs identity credentialing network currently is certified to operate with the Defense Cross-Credentialing Identification System (DCCIS) infrastructure, the credentialing network of DoD.

⁵ Fort Belvoir was selected as a pilot installation by the Army Material Command (AMC) and the USD/AT&L for preparing the system to be used across DoD and with its industry partners. As one aspect of the test, the Federation for Identity and Cross-Credentialing Systems (FiXs), a non-profit industry federation, has been chosen to participate with AMC and Fort Belvoir in this project. FiXs has been collaborating extensively with the DoD on an inter-operable credential authentication system since 2004. The use of FiXs business/operating rules, the FiXs Network and certified federated identity credentials are included in the pilot.

living and to provide a piece of "home." It is in this environment that rapid mission changes and alterations to deployment footprints can have a ripple effect through the support structure and the cost of doing business. We urge Congress to be receptive to supporting the additional funding required for the resale and MWR organizations to move on an agile pace with the force to ensure these benefits remain intact.

Lastly, I would like to take a moment to address the important collaborative effort that takes place between the government entities and their industry partners. In many cases, the business environment in which daily transactions take place is unique to the military marketplace. Over the years the commitment from industry to the military market place has led to an unparalleled level of support. The focus on execution and support to the stores by industry has led to increased customer satisfaction, increased store excitement, increased store sales and increased profit/savings for industry and the military retailer.

Over the course of many years this support structure has led to the evolution of a broker network that provided merchandising and marketing support to all levels of resale equation. The military business channel while important is not considered mainstream business for most large suppliers. It is considered a specialty market. The government has different rules, delivering to military installations require different relationships; the overseas environment has differing requirements. The business model has evolved to meet these requirements. In many cases the military retailer is given the pricing advantages

of the largest retailer even though it does not meet the requirements. The cost benefit of this structure does not make to the cost ledger of the retailer but it certainly has a positive impact on their bottom line. The ALA has watched the evolution of this business model over the last 80 years and it has developed into a support system that delivers world class support to a resale system that delivers a remarkable shopping environment for the troops and their families. We are proud to be an important part of the quality of life equation.

As the year progresses and given the dynamic nature of the challenges facing Government, issues will evolve and legislative challenges and opportunities will arise especially as the President submits the budget and Congress deliberates. ALA will monitor these changes and will react in the best interest of the membership and the MWR and resale programs.

Madam Chair, and Members of the subcommittee – you can be proud of the system that you nurture and protect and we are grateful for this support. The system could not prosper, contribute to the economy, take care of our military and employ so many people without your support.

More importantly, thank you for your stewardship of these important benefits that are essential to our military families' quality of life.

The American Logistics Association

ALA is a modern, best practice trade association that is a critical supporter and tireless advocate promoting a world class quality of life for America's military and their families. For over 80 years, ALA has been the "first Call" when it comes to information or representation on issues impacting military resale and MWR programs.

Our mission is to promote, protect and enhance the military resale and quality of life benefits on behalf of our members and the military community. The member companies that make up the American Logistics Association demonstrate the wide expanse of the business base we represent. At the large end of the spectrum our members include some of the largest consumer package goods companies in the world such as Procter & Gamble, Johnson & Johnson, Kraft Foods, Inc., Coca-Cola and Diagio along with corporate facilitators like Northrup Grumman and Bearing Point. Our members are also small businesses such as Veterans Imaging Service with a focus on improved MWR programs. Our member firms include brokers such as Webco General Partnership, Dunham & Smith Agencies, Overseas Service Corporation and Military Sales and Service (MSS) whose representatives provide a unique service in the military resale industry. Also, the association has distributors such as Coastal Pacific Food Distributors, Inc., MDV Nash Finch and SUPERVALU, Inc., and lastly information technology facilitators like Empower IT and AC Nielson

ALA members supply goods and services to the military community and employ several thousand military spouses, family members and retired service members. ALA member firms, including brokers, manufacturers and distributors, offer employment opportunities through a wide range of full-time and part-time positions located on or near U.S. military installations around the world. Many military spouses have found career opportunities with our member companies.